



Legislative Fiscal Bureau

One East Main, Suite 301 • Madison, WI 53703 • (608) 266-3847 • Fax: (608) 267-6873
Email: fiscal.bureau@legis.wisconsin.gov • Website: <http://legis.wisconsin.gov/lfb>

May 24, 2023

TO: Members
Joint Committee on Finance

FROM: Bob Lang, Director

SUBJECT: Paper under s. 13.10 for the Committee's May 25, 2023, Meeting

Attached is a paper, prepared by this office, on an item under s. 13.10 of the statutes that has been scheduled for a meeting of the Committee on May 25, 2023.

The meeting will be held on Thursday, May 25, in Room 412 East, State Capitol, beginning at 10:59 a.m.

BL/lb
Attachment



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May 25, 2023

TO: Members
Joint Committee on Finance

FROM: Bob Lang, Director

SUBJECT: Enterprise Zone Designation - Charter Next Generation Inc.

REQUEST

On April 27, 2023, the Wisconsin Economic Development Corporation (WEDC) submitted a request under s. 238.399 (3) (am) for approval to designate a new statewide enterprise zone to award \$5,600,000 in refundable enterprise zone tax credits for job creation and new capital investment in Wisconsin. The WEDC Board approved the designation of the zone on April 25, 2023, pending approval of the Joint Committee on Finance under a 14-day passive review. A copy of the request was provided to members of the Committee on April 27. The Committee notified WEDC of an objection on May 17, 2023. The request is now before the Committee under s. 13.10 of the statutes.

CURRENT LAW

Under the enterprise zone tax credit program, WEDC is responsible for designating enterprise zones, certifying taxpayers, allocating and verifying tax credits, and performing other general administrative functions related to the enterprise zone program. Typically, WEDC will certify a business as eligible via a contract that specifies a maximum amount of tax benefits that may be earned by the business by successfully completing specified goals for job creation, job retention, capital investment, employee training, and/or Wisconsin supply chain investment. The contract will delineate the amount that can be earned in each year of the contract, for a period of up to 12 years. In practice, enterprise zone credits have been awarded on the basis of specific projects to individual businesses, rather than awarding credits to businesses located in a specific geographic area.

Pursuant to 2017 Act 369, there is no specific limit on the number of enterprise zones which WEDC may designate. Instead, each designation is subject to approval by the Joint Committee on Finance under a 14-day passive review process. WEDC is required to notify the Committee, in writing, of its intent to designate a new enterprise zone. The notice must describe the new zone and the purpose for which WEDC proposes to designate the new zone.

The Attachment provides information regarding the 33 enterprise zone tax credit awards that have been contracted by WEDC and the former Department of Commerce, including the year in which each contract was executed, the number of years over which each business can earn the credit, and the amount of credit that have been verified by WEDC/Commerce as eligible to be claimed with the Department of Revenue (DOR). The Attachment shows that the duration of enterprise zone designations has been for between four and 12 years, with an average duration of eight years per zone.

The total amount awarded under an enterprise zone, and when that amount may be earned, can change one or more times over the duration of a zone based on amended contracts between the certified business and WEDC. For example, in 2021-22, WEDC amended existing enterprise zone tax credit contracts to award an additional \$50.0 million of credits. Current law does not require WEDC to seek approval from the Committee for a contract amendment. Further, because the enterprise zone tax credit program is funded via a sum sufficient GPR appropriation, current law does not limit the amount of tax benefits that may be earned under a future contract amendment. The Attachment does not reflect any contract amendments that have been proposed, or approved by the WEDC Board, which have not yet been executed as of this writing.

WEDC PROPOSED ENTERPRISE ZONE

Charter Next Generation Inc. (CNG) produces specialty films used in flexible packaging for a variety of industries, including food packaging, consumer products, and healthcare. CNG operates 13 manufacturing facilities, including four in Wisconsin located at: (a) 1264 E High St., Milton, WI 53563; (b) 1710 N. Industrial Dr., Bloomer, WI 54724; (c) 3606 Red Arrow Dr., Rhinelander, WI 54501; and (d) 1901 Winter St., Superior, WI 54880. CNG employs 2,000 employees nationwide, with 600 employees based out of Wisconsin.

CNG plans to expand its operations with the addition of two new buildings totaling an estimated 350,000 square feet and to enhance its manufacturing lines at existing sites. WEDC indicates that the project would include capital investment of over \$270 million across eight years in new buildings (\$45 million), equipment (\$222 million), and infrastructure (\$3 million) in its Milton location, resulting in the creation of 341 new full-time positions with an average hourly wage of \$26.15.

The expansion would also entail growth at its other Wisconsin locations in Bloomer, Rhinelander, and Superior. Because these locations include Tier II areas, WEDC is using Tier II eligible wage amounts (\$30,000 annually for each full-time job created) as the basis of the tax credit calculations. WEDC indicates that most of the jobs created would be in Milton.

According to WEDC, CNG initially considered other states for this investment, including its existing operations in Ohio and South Carolina. CNG stated that the Milton facility is consistently one of its best performing locations and that its performance and access to talent is a major reason why it was chosen for the expansion.

WEDC requests to create a new statewide enterprise zone lasting eight years to award up to

\$5,600,000 to CNG pursuant to the disbursement schedule shown in the table below. The certification date for purposes of calculating credits would be January 1, 2023. Note that the geographic area for the zone would be the entire state and would not be confined to the facilities operated by CNG.

Maximum Tax Credit Disbursement Schedule

<u>Year</u>	<u>Maximum Job Creation Credits</u>	<u>Maximum Capital Investment Credits</u>	<u>Maximum Annual Total</u>
2023	\$25,000	\$500,000	\$525,000
2024	100,000	750,000	850,000
2025	200,000	750,000	950,000
2026	300,000	400,000	700,000
2027	400,000	400,000	800,000
2028	500,000	100,000	600,000
2029	500,000	100,000	600,000
2030	<u>475,000</u>	<u>100,000</u>	<u>575,000</u>
Total	\$2,500,000	\$3,100,000	\$5,600,000

Job Creation Credit. Up to \$2,500,000 of credits would be awarded for creating 341 full-time jobs in the zone at an average hourly wage of \$26.15. The credits would be calculated as 7% of the wages paid to full-time employees hired after the certification date of January 1, 2023. Eligible wages would include those paid to all new employees that are more than \$30,000 and less than \$100,000, annually. The contract would require CNG to create a minimum of 20 jobs by the end of 2023, annually increasing to 273 by the end of 2030, in order to qualify for any tax credits (including capital investment credits). In order to obtain the maximum amount of credits, CNG would need to create 25 jobs by the end of 2023 and 341 by the end of 2030. Thereafter, CNG would be required to maintain the newly created full-time employees through 2038. CNG would also be required to maintain the number of full-time Wisconsin jobs existing in 2022 (593) for eight years.

Capital Investment Credit. Up to \$3,100,000 of credits would be awarded for significant capital expenditures. WEDC indicates that the investment would be made in Milton. The credits would be based on 10% of CNG's eligible significant capital expenditures, as determined by WEDC, paid for real property and personal property. Credits would not be awarded for equipment moved into the zone. CNG would be required to maintain the capital improvements (worth at least \$10,000,000 more than normal capital expenditures) for at least eight years to earn the maximum credit.

Return on Investment Analysis. WEDC's Staff Review of the proposed enterprise zone includes an economic impact analysis regarding the employment, labor income, and value added estimated to be created directly from CNG's expenditures, plus estimates for the effects from indirect (supply chain purchases) and induced (household spending of labor income) spending caused by the project. Based on an effective personal income tax rate of 4.40%, once fully realized, the Staff

Review estimates that the initial jobs created could have a one-year impact of \$816,098 in state income taxes and the total direct jobs created could have an annual impact of \$1,895,981 in state income taxes.

However, individual income tax rate reductions were recently enacted in tax years 2019, 2020, and 2021. Updated tax information for tax year 2021 from DOR reflects an overall average effective individual income tax rate of 3.97% (Net Tax/adjusted gross income [AGI]), which is 10% lower than the effective tax rate used in WEDC's analysis. Further, for the income strata between \$40,000 and \$60,000 (which may be more reflective of the jobs to be created under the project), in tax year 2021 the total tax liability was \$719 million compared to AGI of \$23,663 million, so that the average effective tax rate for an individual in this AGI group ($\$719 \text{ Net Tax} / \$23,663 \text{ Wisconsin AGI}$) would be 3.04% (a difference of 31% from 4.40%). If this lower 3.04% tax rate were utilized in the Staff Review, the estimated annual tax revenue would have been almost \$600,000 lower. The effective tax rate may decline further, to the extent the Legislature enacts individual income tax reductions in the current legislative session.

ANALYSIS AND FISCAL EFFECT

For large economic development projects that require WEDC to verify capital expenditures and payroll before an eligible company can claim a tax credit from DOR, such as the enterprise zone tax credit program, there is generally a delay between when: (a) a business performs activities eligible to earn the credit; (b) WEDC verifies the business is eligible to claim the credit; and (c) the business claims the credit with DOR. Assuming a similar delay between when CNG were to perform activities eligible for the enterprise zone credits under the contract, the zone designation is estimated to first increase state expenditures in 2024-25. Assuming that CNG were to earn and claim all tax credits, and no future amendment to the enterprise zone are made, the fiscal effect of the CNG enterprise zone is estimated to increase GPR expenditures by \$525,000 in 2024-25, \$850,000 in 2025-26, \$950,000 in 2026-27, \$700,000 in 2027-28, \$800,000 in 2028-29, \$600,000 in 2029-30 and 2030-31, and \$575,000 in 2031-32. The Committee could approve WEDC's request to designate the entire state as enterprise zone (Alternative 1). CNG and WEDC would enter into the contract attached to the request, under which CNG would earn credits as shown in the table above.

Alternative 1 would designate an enterprise zone that would encompass the entire state. Joint Committee on Finance approval is required for an enterprise zone designation, but WEDC does not need to request approval by the Committee to amend an existing zone. Under current law, an enterprise zone can exist for up to 12 years once designated. Although WEDC's request envisions a zone specific to the contract that would be entered with CNG, state law authorizes WEDC to enter into a contract with any business that locates or expands its business operations within in the zone. If the Committee approved the request as submitted, WEDC could, by law, enter into contracts with any number of businesses that locate within the zone (anywhere in the state) for an unlimited amount of credits. Alternative 1 could effectively end enterprise zone oversight by the Committee for 12 years.

The Committee could, alternatively, find that the geographic area requested for the zone is overbroad given that the vast majority of the related activities would be confined to the City of

Milton. Instead, the Committee could choose to restrict the geographic designation to the area actually related to the project and the four locations CNG operates in the state (Alternative 2). Under this alternative, WEDC would have to request from the Committee to expand the zone to include additional locations under a 14-day passive review.

ALTERNATIVES

1. Approve the request as submitted.
2. Approve the request, but on the condition that the zone be designated as the noncontiguous area conterminous with the facilities and property owned by Charter Next Generation Inc. at or adjacent to the following addresses: (a) 1264 E High St., Milton, WI 53563; (b) 1710 N. Industrial Dr., Bloomer, WI 54724; (c) 3606 Red Arrow Dr., Rhineland, WI 54501; and (d) 1901 Winter St., Superior, WI 54880. Specify that WEDC may request under a 14-day review process an expansion of the zone for future locations operated by CNG.
3. Deny the request.

Prepared by: John Gentry
Attachment

ATTACHMENT

Enterprise Zone Awards Contracted by WEDC (Millions)

<u>Certified Business</u>	<u>Contracted Amount of Credits</u>	<u>Year Awarded</u>	<u>Years Over Which Credits Have Been Allocated</u>	<u>Credits Verified (Thru 4/4/22)</u>
<i>Open Zones</i>				
Milwaukee Electric Tool Corporation	\$70.5	2016	2016-2027	\$31.7
Kohl's Corporation	62.5	2012	2011-2021	42.7
Green Bay Packaging Inc. - Mill Division	60.0	2018	2018-2029	57.0
Komatsu Mining Corp.	59.5	2018	2017-2028	38.7
Kimberly-Clark Corporation	28.0	2018	2019-2023	15.4
Exact Sciences Corporation	27.5	2015	2014-2025	10.7
Kwik Trip, Inc	26.0	2017	2017-2022	24.3
Molson Coors Beverage Company	25.0	2020	2020-2027	7.2
Haribo of America Manufacturing LLC	22.5	2017	2017-2028	8.6
U.S. Venture, Inc.	20.0	2017	2017-2023	14.2
Generac Power Systems Inc	19.0	2017	2017-2024	10.5
DRS Power & Control Technologies, Inc.	18.5	2018	2018-2025	9.8
Amazon.com Services, Inc.	17.8	2014	2014-2024	9.0
Northstar Medical Technologies, LLC	14.0	2011	2011-2022	10.1
Johnsonville Sausage, LLC	11.5	2017	2017-2023	10.6
ATI Ladish LLC	10.5	2018	2018-2027	6.2
Hewlett Packard Enterprise Company	8.0	2021	2020-2024	3.2
Brakebush Brothers, Inc.	<u>6.5</u>	2017	2017-2022	<u>1.6</u>
Subtotal Open Zones	\$507.3			\$311.5
<i>Closed Zones</i>				
Mercury Marine*	\$65.0	2010	2010-2021	\$65.0
Quad Graphics, Inc.	55.9	2010	2010-2019	55.7
Oshkosh Corporation*	55.0	2010	2009-2020	55.0
Fincantieri Marine Group LLC*	42.0	2011	2010-2021	42.0
W. Solar Group, Inc.	28.0	2010	2010-2021	0.3**
Direct Supply, Inc.	22.5	2016	2017-2023	0.0**
Bucyrus International, Inc.	20.0	2010	2010-2019	9.2**
Uline, Inc.	18.6	2010	2010-2018	18.4
Kestrel Aircraft Company, Inc.	18.0	2012	2012-2019	0.7**
InSinkErator	15.5	2012	2014-2018	15.5
Plexus Corp.	15.0	2011	2012-2019	15.0
Weather Shield Mfg., Inc.	8.0	2013	2013-2019	8.0
Trane US Inc.	5.5	2014	2013-2018	5.5
Dollar General Corporation	5.5	2016	2016-2020	5.5
Saputo Cheese USA	<u>3.0</u>	2017	2016-2019	<u>3.0</u>
Subtotal Closed Zones	\$215.5			\$298.8
Grand Total	\$884.8			\$610.3

* The time period for earning credits under the contract is complete, but the zone remains temporarily open for further administrative reviews and reporting.

** WEDC terminated four zones designated for Bucyrus International, Inc., W. Solar Group, Inc., Kestrel Aircraft Company, Inc., and Direct Supply, Inc. prior to the end of the contract term for various performance reasons. Certain amounts shown as verified were later revoked.

Source: Wisconsin Economic Development Corporation